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SUBJECT: UK LABOR MARKET BACKGROUND FOR G8 LABOR MINISTERIAL

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LONDON 00000648 001.2 OF 002

1. (SBU) Summary: HMG does not have a specific objective for the upcoming G8 labor ministers meeting in Rome, but hopes that ministers will share information on best practices and experiences related to the economic crisis. This meeting comes during a particularly turbulent time for the UK's labor market. It has been hit hard by the financial crisis with unemployment increasing by 1.1 percent over 2008, and now standing at 6.3 percent, and expected to rise further before the end of the recession. Job vacancies are falling while layoffs are rising. Public reaction to rising unemployment has so far been relatively muted, but is expected to intensify as the recession deepens. HMG has introduced a multitude of initiatives to mitigate the impact of the recession on the UK's labor market. Its initiatives were designed to stimulate labor demand, help the unemployed back into work, and change the UK's benefit system. End summary.

#### HMG Expects Discussion of Best Practice

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2. (SBU) The UK does not have a specific objective for the upcoming G8 labor ministers meeting, according to an official from the Department for Work and Pensions. Satish Parmer, of the Department's Joint International Unit, told us the UK is looking to ensure that the meeting provides a good opportunity for ministers to share information on best practices and experiences related to the economic crisis. HMG expects discussion of what action needs to be taken to help affected workers and families. It also hopes that the messages coming out of the meeting will help inform the discussions at the London Summit.

#### UK Labor Market: Statistics and Overview

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3. (U) The UK's labor market has been hit hard by the financial crisis, particularly given the size of its financial sector which contributes approximately 11 percent to UK GDP. The employment rate for people of working age was 74.1 percent for the final quarter of 2008, down 0.3 percent from the previous quarter and 0.7 percent over the year. Unemployment increased by 369,000 in 2008 to reach 1.97 million, with the unemployment rate increasing from 5.2 percent to 6.3 percent. Redundancies in the last quarter of 2008 reached 259,000, the highest figure since comparable records began in 1995. Unemployment is expected to reach 3.2 million before the end of the recession with few sectors remaining unscathed. The claimant count, which measures the number of people claiming unemployment benefits but who are actively seeking work, was 1.29 million in January, the highest figure since 1999. It was up 73,800 over the previous month and up 438,100 over the year. There were 504,000 job vacancies in the three months to January, down 76,000 over the previous quarter and down 179,000 over the year. This is the lowest figure since comparable records began in 2001.

14. (U) So far, public reaction to rising unemployment has been fairly muted. However, the use of foreign workers in areas of high unemployment sparked a string of wildcat strikes at energy plants across the country earlier this year. HMG worked with the unions, employers and ACAS (the UK's conciliation and arbitration service), to resolve the strikes. A large protest, "Put People First - March for Jobs, Justice and Climate," is planned immediately prior to the G20 London Summit. The Trades Union Congress (TUC), along with the UK's largest unions, will join a variety of aid organizations and climate campaigners to draw attention to, amongst other things, the plight of the unemployed in the UK.

#### HMG Initiatives to Increase Labor Demand

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15. (U) HMG announced a GBP 20 billion fiscal stimulus package in its November 2008 Pre-budget report. This was designed, in part, to increase employment levels, particularly in the construction sector. It included GBP 3 billion of public infrastructure projects brought forward to support jobs during the slump. This included capital projects on housing repairs and insulation, school extensions, refurbishment of doctors' practices and transport improvements to provide jobs while the UK economy faced a recession. HMG's fiscal stimulus package also included a 2.5 percent reduction in value-added tax (VAT) for one year, putting GBP 12.4 billion into the economy. This was aimed at stimulating the economy and providing jobs during the downturn.

16. (U) HMG has stressed the importance of working with industry to ensure vacancies are filled efficiently. Prime Minister Gordon Brown and Secretary of State for Work and Pensions James Purnell met with 22 key employers and representative bodies in February for a meeting of the National Employment Partnership (NEP). Together, the 22 NEP members employ more than two million people and are expected to fill thousands of vacancies over the next twelve months. At the

LONDON 00000648 002.2 OF 002

meeting, NEP members committed to: advertise all non-specialist vacancies through Jobcentre Plus (a government funded employment agency and social security office); promote the development of skills through the use of apprenticeships; continue to offer advice to help people facing layoffs; and fill more jobs through Local Employment Partnerships.

#### HMG Initiatives to Help the Unemployed Back into Work

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17. (U) HMG has focused on retraining and skills to counter rising unemployment. In December 2008, it announced a package of measures designed to get people the training and skills to help them succeed in the difficult job market. This included GBP 79 million of additional European Social Fund money to support people who become unemployed, specifically targeting people who need to develop their confidence and life skills. HMG already invests GBP 4.5 billion on adult training, but announced this would become more targeted, particularly helping to deliver short-term pre-employment training and increased provision through Jobcentre Plus and the national Careers Advice Service. It announced an extra GBP 1.3 billion to guarantee that everyone looking for work will get advice on finding a new job, help to write a new resume and complete job applications, help on retraining and skills advice, and help with rent and mortgages. An additional GBP 1.3 billion of funding was made available to Jobcentre Plus to increase the support offered. Jobcentre Plus will use the funding to deploy extra resources, including allocating nearly 2,000 extra staff to deal with the increase in claims for Jobseeker's Allowance.

18. (U) HMG allocated GBP 500 million for the long-term unemployed, specifically those unemployed for longer than six months. This package included: incentives, or "Employers' Golden Hellos," of up to GBP 2,500 for employers to recruit and train the long-term unemployed; extra funding for training places to help the unemployed gain new skills; help to set up businesses; and work-focused volunteering options.

#### Changes to Unemployment Benefits

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¶9. (U) Jobseeker's Allowance is being reformed with the introduction of a personalized, contracted Flexible New Deal to provide support for skills and back-to-work activity. It will provide a unified approach for all jobseekers. The level of support jobseekers receive and the requirements placed upon them to find work will increase the longer they are on benefits. Additionally, a Welfare Reform Bill is currently going through Parliament. Key provisions include: lone parents and partners of people with younger children and disabled people, who could work with support, will be expected to take part in training activities and the long-term unemployed will be expected to "work for their benefits."

Websites  
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¶10. (U) As requested, below are a number of useful websites which provide information on the UK's response to a deteriorating labor market.

-- [www.dwp.gov.uk](http://www.dwp.gov.uk) - UK Labor Ministry  
-- [www.statistics.gov.uk](http://www.statistics.gov.uk) - UK Statistics Authority  
-- [www.number10.gov.uk](http://www.number10.gov.uk) - Prime Minister Brown's website

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